

Experimental Approach to Effective Implementation of Non-Compete Agreements

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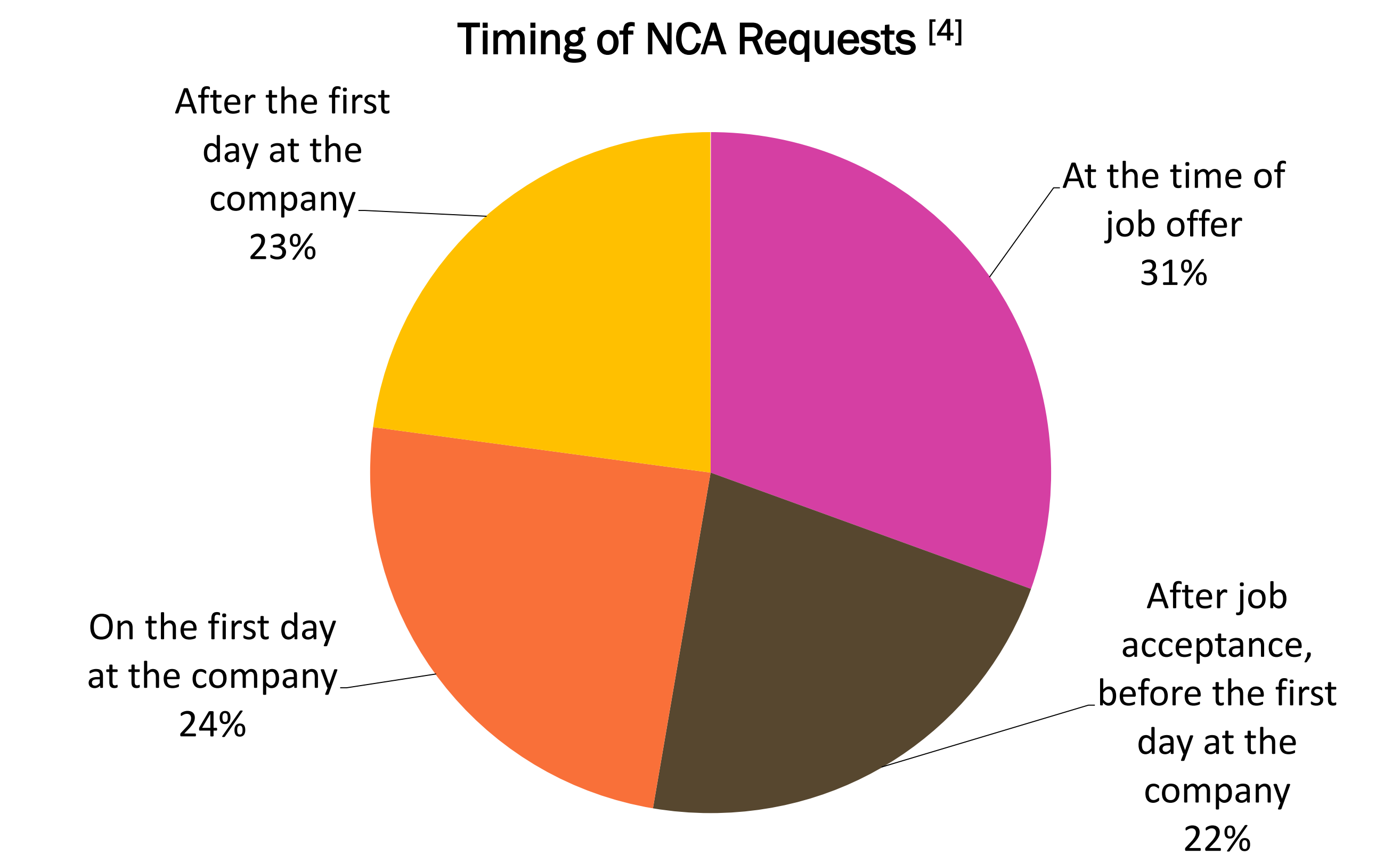
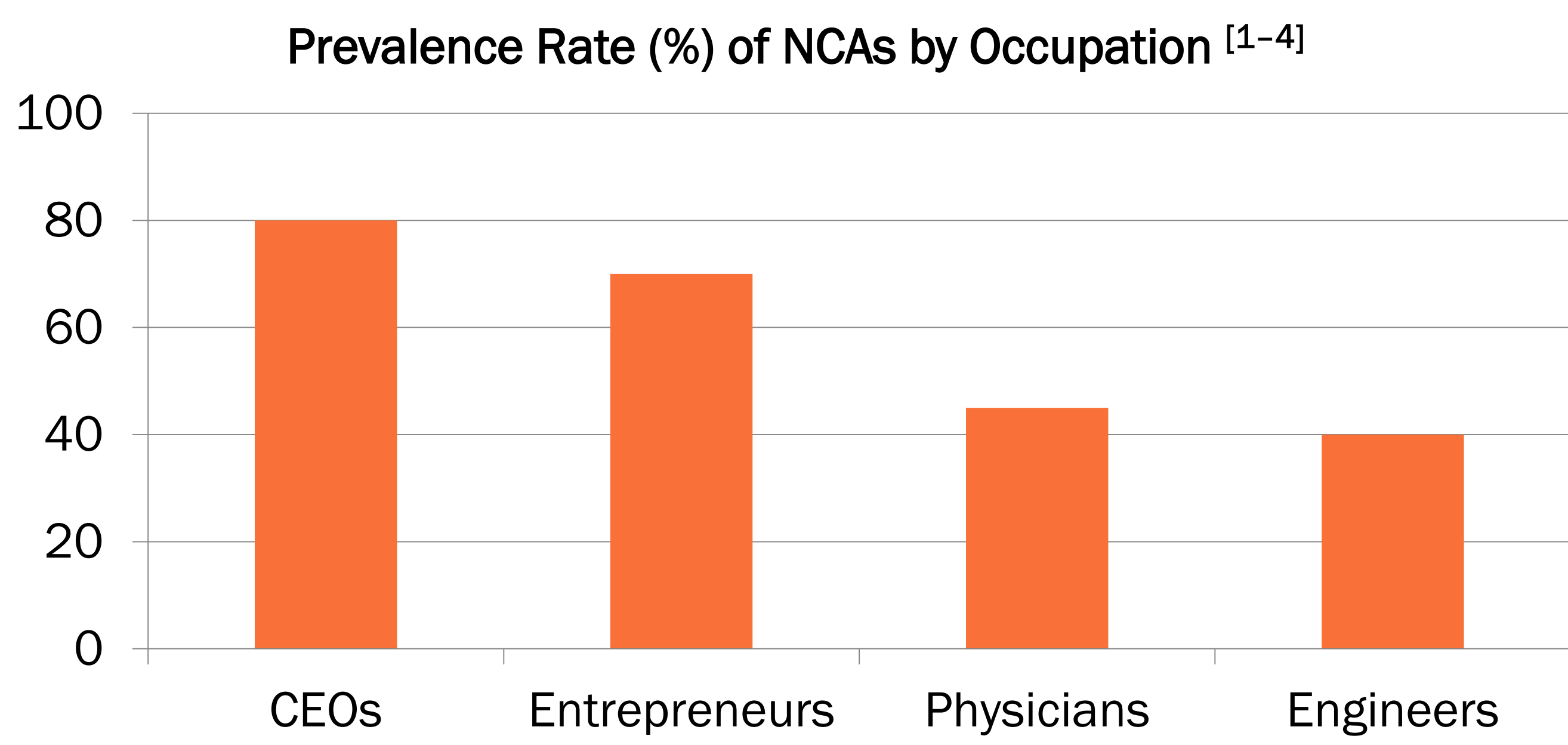
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INTRODUCTION

Would you take an internship if it would prevent you from working for another company in the same industry for the next two years?

Imagine you own an airline company. Would you invest in the training of pilots if they were free to leave your company and work for another airline after you spent the money to train them? What if they could not work for other airlines for the next two years after they quit?

Non-compete agreements (NCAs) are widely used contracts between employees and employers that stipulate that employees are not allowed to compete against their former employers (be employed by a rival company) for a certain period of time after their employment ends.



In some cases, firms strategically wait to introduce an NCA until after a worker has accepted a job offer (and has turned down other job offers). This minimizes the worker's negotiating power. We ask: How does this hurt workers? Can this strategy hurt firms as well?

METHODOLOGY

Simulate a labor market in the laboratory under different NCA policies:

- **No NCA:** Firms are prohibited from using NCAs.
- **Ex-Post NCA:** Firms may impose NCAs after workers accept a job offer and without prior disclosure.
- **Ex-Ante NCA:** Firms must disclose NCAs in the job offer.

	Firm	Worker
Matching	Offer a position? (Impose NCA?)	Receive a signal from each position. (Observe NCA requirements.) Take a position or stay unemployed?
Production	Receive a signal. Observe employee's performance.	Receive a signal. Perform slider tasks.
Separation	Fire employee?	Quit?

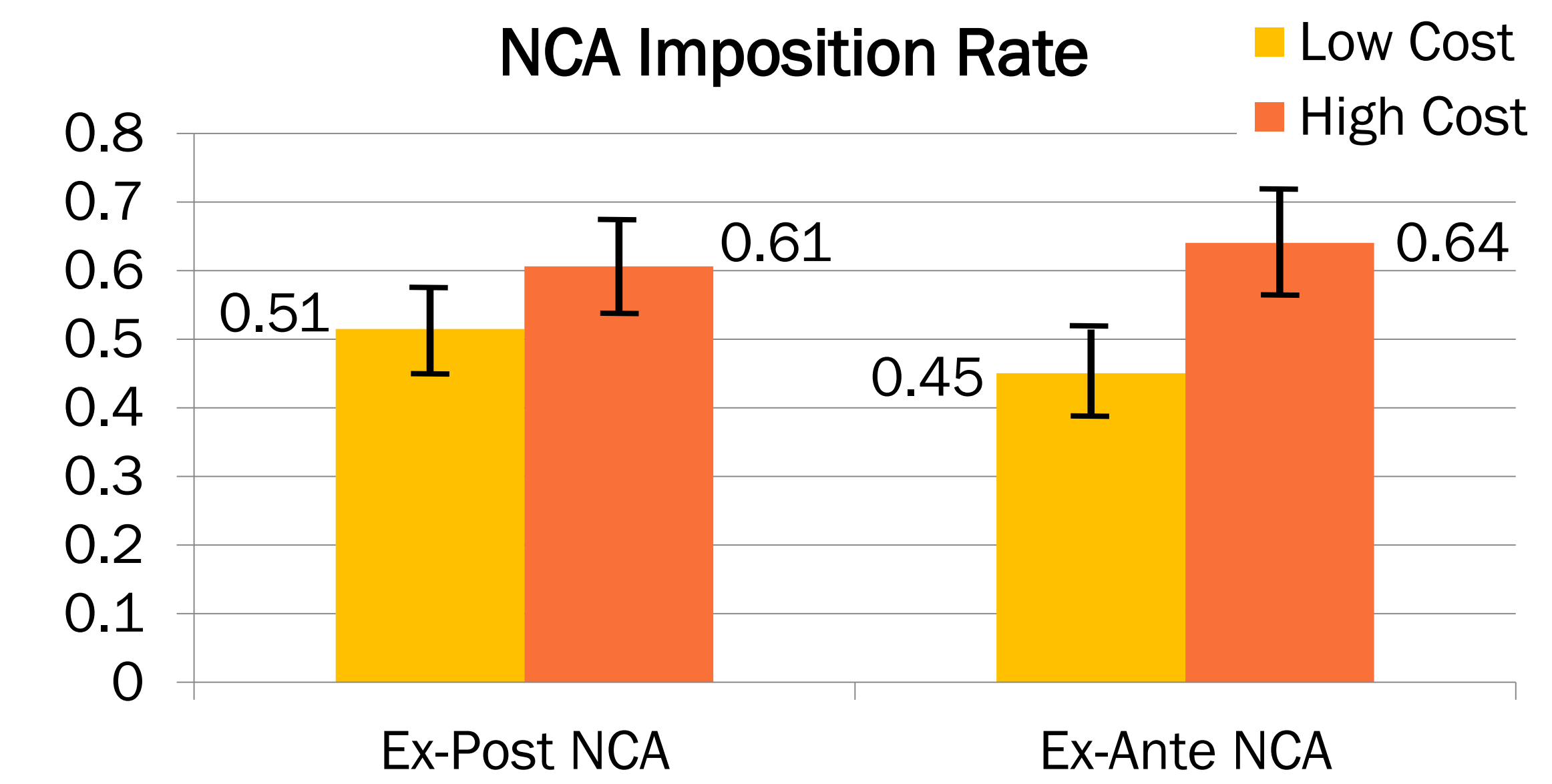
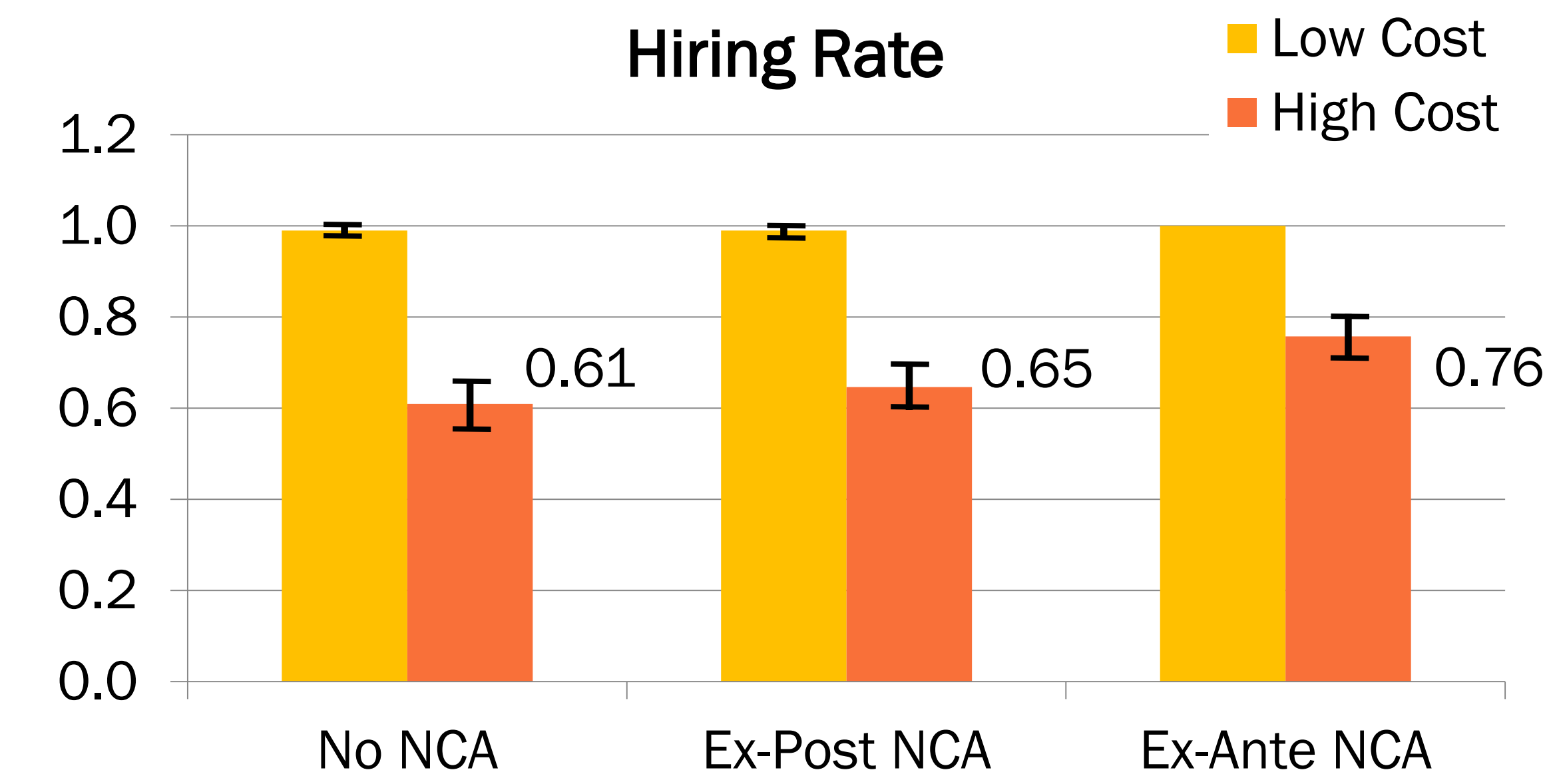
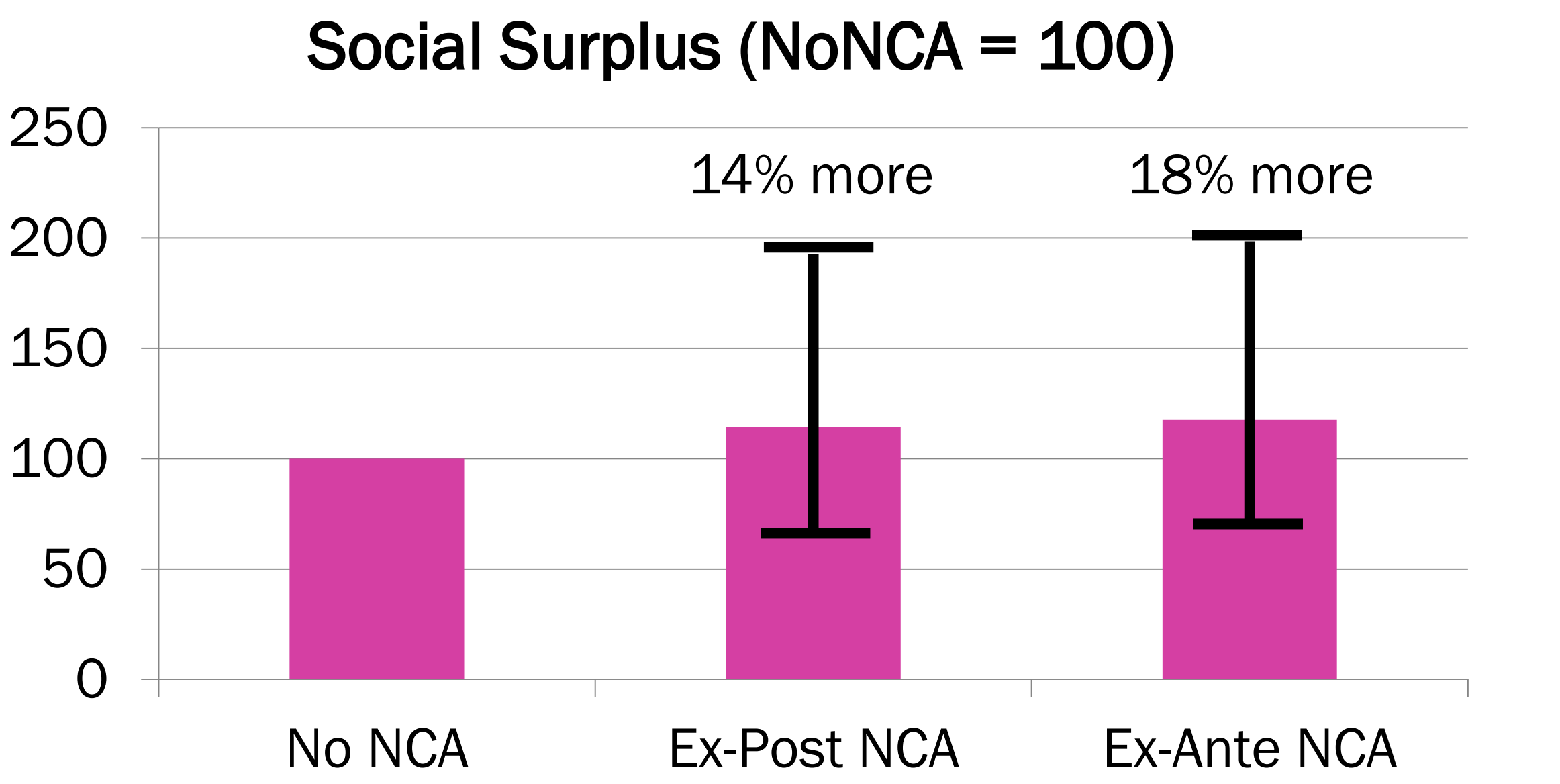
Key Features

- Two types of positions: High cost of hiring and low cost of hiring
 - Prediction: Incentive to hire will increase for high hiring-cost positions with an introduction of NCAs.
 - Prediction: Low-cost positions may impose NCAs under the Ex-Post NCA policy, but will not impose NCAs under the Ex-Ante NCA policy.
- Exogenously assigned match quality
 - Each match is assigned a “good” or “bad” match quality.
 - Underlying match quality is unknown to firms and workers.
 - A good match sends good signals more often, which in turn sets the piece rate (profit rate) for the slider tasks.
 - Prediction: More worker–position pairs will be “trapped” in a bad match when more workers are bound by NCAs.
- Modeling NCA
 - When a worker signs an NCA, his or her piece rate for the slider tasks will be fixed at a low rate during the three periods that immediately follow the termination of the employment.

HYPOTHESES

1. Under the Ex-Post and Ex-Ante NCA policies, more firms hire workers because they can mitigate the risk of losing on the hiring cost by imposing NCAs and discouraging workers from quitting.
2. Workers who are bound by NCAs are less likely to quit.
3. Under the Ex-Ante NCA policy, firms with a low hiring cost impose NCAs less frequently than under the Ex-Post NCA policy.
4. Social surplus is maximized under the Ex-Ante NCA policy because it balances the gains from increased employment and losses from decreased worker mobility.

RESULTS



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